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¶1. (U) Summary. This is Volume 8, issue 36 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:
- Executive Turnover on the Increase
- Mboweni Not Quite Ready to Retire
- JSE Chief Sees More Foreign Selling Ahead
- Vehicle Sales Take another Nosedive
- Industry Hails New Motor Plan
- OR Tambo Airport Expansion on Track
- Emirates Reconsiders Durban Route
- Government Concerned over Impact of
  Eskom's Credit Downgrade
- Eskom Chief Financial Director Resigns
  - More Woes
- Major Miners Resisting Self-Generation,
  But Juniors Step up to the Power Plate
- Johannesburg Leads Hotel Industry Growth
- Dubai-based Group to Invest Billions to
  Develop Theme Park in Durban
End Summary.

Executive Turnover on the Increase

¶2. (U) Deloitte reported that the average turnover of executives in South Africa increased from 10.5% for the period August 1, 2006 to July 31, 2007 to 13.5% for the period August 1, 2007 to July 31, ¶2008. In the survey of 400 companies, Deloitte found that the main reasons for attrition at the top levels of companies included early retirement (22%), emigration (15%), lack of career advancement (11%), and retrenchment (11%). The turnover statistic suggested that South Africa would lose up to half of its executives every four or five years. Globally, companies have acknowledged that they would be losing half of their senior executives over the next five years. Deloitte said South African executives abroad were in top positions in companies across a broad spectrum of sectors. The majority of executives (60%) in the Deloitte report cited crime and violence as their main reasons for emigration, with better employment opportunities (35%), and company transfers (30%) given as other reasons. Australia replaced the UK as the most popular destination for executives leaving South Africa. The manufacturing and finance sectors reported the highest percentage of executives emigrating over the past three years at 32% each. (Business Day,

September 3, 2008)

Mboweni Not Quite Ready to Retire

¶3. (U) South African Reserve Bank (SARB) Governor Tito Mboweni has confirmed that he is ready to serve a third term in his post if asked by the country's next president, who will be elected next year. Mboweni took the unusual step of calling a press conference on his future to dispel speculation that he may step down before his second five-year term ends in August 2009. "My own position is that I have been governor of the Bank since August 1999 and I will complete my current term in August 2009," he told reporters. "If asked to serve, I will. That should put the issue to rest and I will not entertain that question in the future," he added. Mboweni, 49, was labor minister before former President Nelson Mandela asked him to become the first black official to head the SARB, where he spent a year as adviser to former Governor Chris Stals. Mboweni has been a staunch supporter of the government's inflation-targeting policy. Qa staunch supporter of the government's inflation-targeting policy. It has won South Africa respect in global markets but has drawn fierce criticism from left-wing allies of the African National Congress (ANC). Mboweni said he saw no reason why Zuma should not reappoint him for a third term. Governors of the SARB are appointed by South Africa's President, after consultation with the Finance Minister and the SARB's 14-member board of directors. Asked if he thought there were suitable candidates to fill his post, he replied: "There are lots of them, there is a huge list, but I won't reveal names. Don't write my obituary yet." (Business Day, September 3, 2008)

JSE Chief Sees More Foreign Selling Ahead

¶4. (U) Johannesburg Stock Exchange (JSE) CEO Russell Loubser said foreign investors are expected to remain net sellers of South African shares until the end of 2009. Loubser also said the bourse operator's five-fold, first-half profit growth was not sustainable and he expects conditions to remain tough for the next year, despite a "healthy" pipeline for local equity listings. Foreign investors have turned net sellers of local stocks this year amid a global downturn, selling a net R12.5-billion ($1.6 billion) worth of shares so far this year. "I can see this continuing for a good period of time because the bad times are not over," Loubser said. Furthermore, he did not expect to see many de-listings in the second half of 2008. Loubser said the JSE would seek to list more companies from elsewhere on the continent and described talks with Nigerian companies as "going well". He said the JSE saw "huge potential" in the Middle East. Loubser did not expect the 2009 elections in South Africa to destabilize the country, but he said South Africa's power crisis was "here to stay". "It's going to take quite a number of years before new power sources come on line, and between then and now, we're going to have power cuts ... that is going to slow growth," he added. (Sunday Times, August 31, 2008)

Vehicle Sales Take another Nosedive

¶5. (U) The National Automobile Manufacturers Association of South Africa (NAAMSA) reported that total new vehicle sales contracted for the 17th consecutive month to 30.3% y/y in August, worse than July's decline of 19.9%. The trend in vehicle sales continues to point to lackluster consumer spending on interest-rate-sensitive durable goods due to a tighter credit environment, slowing real disposable income growth, and plummeting consumer confidence. Poor domestic sales have led to further local dealership and distributor consolidation and job losses. Local distributors expressed the hope that the August figures represented the low-point in the declining sales cycle. In contrast, new vehicle exports posted an impressive 73.8% y/y increase in August and a 61.5% y/y increase during the first eight months of 2008. NAAMSA data confirmed that domestic

economic activity remains weak, but the welcome export boost may assist in addressing South Africa's gaping current account deficit (9% of gross domestic product in the first quarter of 2008), and thereby reduce some of the associated currency risk. (ABSA Newsletter and Business Report, September 3, 2008)

Industry Hails New Motor Plan

¶6. (U) Vehicle manufacturers welcomed the government's long-awaited announcement on the successor to the Motor Industry Development Program (MIDP). Manufacturers hailed the cabinet-approved Automotive Production and Development Program (APDP) for finally providing certainty for their strategic investment decisions. The APDP, which will run from 2013 until 2020, will bring South Africa into compliance with World Trade Organization (WTO) industry-support requirements. The new program includes moderate tariffs, local Qrequirements. The new program includes moderate tariffs, local assembly and investment allowances, and a production incentive. It is aimed at doubling vehicle production to 1.2 million units a year by 2020. APDP includes import tariffs of 25% for completely built-up vehicles and 20% for components used by vehicle assemblers. A local assembly allowance will allow light-vehicle manufacturers with an annual production volume of at least 50,000 units to import 20% of their components duty-free for three years from 2013. It would fall to 18% thereafter. To support investment in new plant and machinery a direct grant or investment allowance equal to 20% of the project value will be provided from 2009. There will also be company-specific allowances such as a maximum additional 10% for training, technology transfer, localization, research and development, and commissioning. Industry will be expected to intensify skills development and increase local content in return for the incentives. The shift away from the previous export incentive-based MIDP to a production-based allowance is expected to benefit high-volume vehicle exporters such as DaimlerChrysler. However, Department of Trade and Industry (DTI) Director-General Tshediso Matona said that the right balance had been struck through intensive negotiations with industry. National Association of Automobile Manufacturers of South Africa (NAAMSA) President Johan van Zyl said the new program provided the automotive industry "with

a solid basis to rise to the challenge of becoming more internationally competitive and to expand the production". He added that each vehicle manufacturer would have to evaluate the provisions of the new program and take steps to optimize its production plans and operations. The R20 billion ($2.6 billion) catalytic converter industry has been left out of the APDP. Support for catalytic converters, medium and heavy-commercial vehicles, and other material-intensive components will be subject to further consultation. DTI Automotive Program Director Mkhululi Molota said announcements would be made on the catalytic converters in the current financial year. (Business Day and Engineering News, September 4, 2008)

OR Tambo Airport Expansion on Track

¶7. (U) Airports Company South Africa (ACSA) opened the first phase of its R2.3 billion ($299 million) central terminal building at OR Tambo International Airport on September 3. International passengers arriving in Johannesburg will now pass through the new public concourse, which is two and a half times bigger than the airport's prior concourse. The remainder of the building will be opened in two phases: the new international departures hall will open in December and the expanded retail center will open in April ¶2009. ACSA will also complete the installation of a new baggage management system at international arrivals by December. Four of the new baggage carousels are specifically-designed for massive new-generation aircraft such as the Airbus A380. OR Tambo Projects Manager Kesavan Naicker said construction at the airport was about 70% complete and there was no doubt that the airport would be ready for the 2010 FIFA World Cup. The renovations are aimed to ease the passage of passengers through Africa's busiest airport. OR Tambo

currently handles 80,000 passengers as day on 600 flights. The advent of low-cost airlines in Africa has spurred exponential passenger volume growth. Naicker said that once the current cycle of construction at the airport was completed there would be enough capacity to meet growth in passenger numbers until 2015, bringing an end to construction at least for a few years. (Business Day and Pretoria News, August 30-September 3, 2008)

Emirates Reconsiders Durban Route

¶8. (U) Emirates announced that it could reinstate its plans to fly to Durban if oil prices remain stable. The airline announced that it would have to temporarily pull out of its scheduled service due to begin on December 1, when oil prices reached $140 per barrel in June. Emirates is now reconsidering its plans due to the recent drop in oil prices. Emirates President Tim Clark said if oil continued to trade around the $116 per barrel mark, the airline would restart the expansion of its network, adding Durban, Amsterdam, Barcelona, and Kiev. Emirates Southern Africa Regional Manager Fouad Caunhye confirmed that escalating fuel prices had forced Emirates to review its operations and noted that, "Emirates will reconsider its options should there be a sustained regression Qwill reconsider its options should there be a sustained regression of the price of oil." Tourism KwaZulu Natal (TKZN) spokesperson Pinky Radebe described the proposed Emirates flights as important to the province since they would improve direct air access and give the province a competitive edge as a destination. TKZN had begun discussing direct tour packages with operators and was disappointed when Emirates pulled back from the flights in June. (Travel Hub, August 27, 2008)

Government Concerned over Impact of
Eskom's Credit Downgrade

¶9. (U) Public Enterprises Minister Alec Erwin announced that the government is concerned over the higher borrowing costs associated with the recent downgrade of Eskom's credit rating. Moody's downgraded the state-owned electricity utility's foreign currency rating by three notches to Baa1 from A2, while the local currency rating was cut to Baa2 from A1 in August 2008. The downgrade will add to the cost of Eskom's plan to raise R150 billion ($19.2 billion) from banks and bond issues to fund part of its construction

program. Eskom plans to spend around R343 billion ($44 billion) over the next five years and R1.3 trillion ($166.6 billion) over a 20-year period to increase its electricity generating capacity. South Africa's electricity supply constraints became apparent early in 2008 when a number of mines were forced to shut down operations for five consecutive days and countrywide load shedding ensued. That contributed to a 25.1% q/q contraction in mining sector output in the first quarter of 2008 and a slowing in overall economic growth from 5.1% in the fourth quarter of 2007 to 2.1% q/q in the first quarter of 2008. (ABSA-Newsletter, September 3, 2008)

Eskom Chief Financial Director Resigns
- More Woes

¶10. (U) The resignation of Eskom's highly-regarded Financial Director Bongani Nqwababa, who will join Anglo Platinum as CFO next year, has left an important gap in the corporate structure, spokesman Fani Zulu acknowledged. Nqwababa will continue to oversee Eskom's submission to the National Energy Regulator of South Africa (NERSA) for the second phase of the multi-year price determination, but Zulu added that his replacement would have to take over that responsibility once he left. Zulu dismissed the suggestions that Nqwababa had left owing to his failure to convince markets to issue capital to help it fund Eskom's $44 billion investment program. He stressed that Nqwababa would still be in office when the next bond

raising took place within the next few months. Zulu said a recent investor roadshow in Europe showed a strong appetite for Eskom paper. However, he acknowledged that this was prior to the decision by Moody's to downgrade Eskom's credit rating. (Mining Weekly, September 2, 2008)

Major Miners Resisting Self-Generation,
But Juniors Step up to the Power Plate

¶11. (U) Major South African deep-level miners want to stick to mining and avoid generating their own electricity - except when it comes to emergency power. However, emerging junior miners such as South Africa's Wesizwe Platinum and Australia's Braemore Resources are taking self-generation in stride. Braemore goes as far as to accuse South African miners of being "spoilt" and points to the Australian tradition of miners generating their own electricity. However, South African Chamber of Mines official Dick Kruger said it is not economically feasible for mining companies to generate their own electricity. Harmony Gold CEO Graham Briggs holds a similar view, adding that the cheapest option for Harmony is to continue using electricity provided by Eskom, while assuring a back-up for safety during power outages. Outgoing Gold Fields COO Terence Goodlace agrees that Gold Fields is "accelerating what we need to be doing to save energy, rather than co-generating power". Wesizwe, however, is going to co-generate its own power on a large scale at its new 230,000 tons of ore per month platinum mine. This seems not to be the company's first choice, but rather an imperative, because Eskom can only "guarantee" minimal power for its new project. QEskom can only "guarantee" minimal power for its new project. Wesizwe CEO Mike Solomon said, "Wesizwe needs to have contingencies as we cannot afford project delays or shortfalls in production and we have made adequate provision for supplementary power in our budget, as a risk management procedure." Wesizwe will put in place heavy fuel generators for power supply up to 45 MW and plans on Eskom being out of the woods by 2017 when the Medupi power station comes fully on line. The National Energy Regulator of South Africa (NERSA) encourages companies to co-generate, but mechanisms for potentially selling surplus power to Eskom's grid are still being worked out. (Mining Weekly, August 29)

Johannesburg Leads Hotel Industry Growth

¶12. (U) Pam Golding Hospitality CEO and Managing Director Joop Demes announced that the local hotel industry remains vibrant and is expanding rapidly. The latest figures from the industry benchmark STR Global Hotel Survey show that revenue per available room (REVPAR) in the first seven months of 2008 at South African hotels was up 18.1% y/y. While the REVPAR growth was driven mainly by increased room rates, occupancies also remained buoyant at an

average 70% over the period. The STR survey is based on a sample of 31,756 rooms at large hotels - those with more than 35 rooms. Growth was being driven largely by the domestic market, which made up 75% of the total market. Demes added that "International visitors are just the cherry on top." Demes estimated that at least R9.8 billion ($1.2 billion) will be invested in numerous hotel projects next year, adding more than 6,300 rooms countrywide and raising the current inventory of 57,000 rooms by more than 10%. India's Taj Hotels is a recent entrant to the local market and is building two five-star hotels. The group's flagship Taj Palace Hotel will be a 175-room five-star hotel in central Cape Town, while a 140-room hotel is under development in Johannesburg. The STR survey shows that Johannesburg is one of the most lucrative locations in South Africa, with REVPAR in the first seven months of the year up 23% over the corresponding period last year. Average occupancies are at 75.9%. However, Demes points out that OR Tambo International Airport is where the real action is taking place. Average occupancies in the airport vicinity are up by 79.3% for the first seven months of the year and REVPAR is up 30.5%. Several hotel groups have targeted the airport for further development. Comair (operators of British Airways and Kulula) will construct a

4-star hotel close to OR Tambo in partnership with Protea Hotels.

Dubai-based Group to Invest Billions to
Develop Theme Park in Durban

¶13. (U) Dubai-based Ruwaad Destinations has submitted a proposal to develop a multibillion-dollar theme park on KwaZulu Natal's (KZN) north coast. Pam Golding Hospitality CEO and Managing Director Joop Demes said the development will comprise of two theme parks - one portraying an African wildlife theme, the other a Zulu culture theme - as well as 20 large hotels and 120 residences. "The theme park will be to international standards and will transform KZN," said Demes. Demes described the theme park as a self-contained destination, which will provide a bush-beach experience in a malaria-free area. Ruwaad Destinations CEO Darrell Metzger said KZN was selected because of its "excellent year-round climate" and the upcoming opening of Durban's new King Shaka International Airport. Regional and domestic travelers will be the mainstay of the development. The development, expected to be completed by 2014 at a cost of over $2 billion, will also create tens of thousands of jobs in the area. Ruwaad is a subsidiary of the Dubai 9 group and specializes in real estate, hospitality, tourism investment, and destination development. Ruwaad is also planning a cultural and historical focus for the development, centered on a statue of King Shaka Zulu. The statue would cost R200 million ($25 million) to build and was expected to be 13 meters higher than the Statue of Liberty in New York. (Travel Hub, September 2, 2008)

LA LIME